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EXECUTIVE SECRETARY

July 13, 2001

Via Hand-Delivery

K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37219

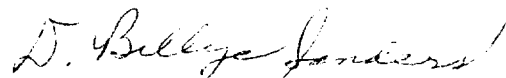
01-00619

Re: Petition of Chattanooga Gas Company for Approval of Tariff
Establishing Performance-Based Rate Making Mechanism

Dear Mr. Waddell:

Enclosed you will find the original and thirteen (13) copies of the Petition of Chattanooga Gas Company for Approval of Tariff Establishing a Performance-Based Rate Making Mechanism. In addition, I have enclosed a check for \$25 for the filing fee.

Sincerely,



D. Billye Sanders
Attorney for Chattanooga Gas Company

DBS:lmb
Enclosures

cc: Mr. Archie Hickerson, Manager-Rates
Mr. Earl Burton, Manager, Marketing/Rates
Consumer Advocate Division

BEFORE THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

PETITION OF CHATTANOOGA GAS)	
COMPANY FOR APPROVAL OF TARIFF)	
ESTABLISHING A PERFORMANCE-)	DOCKET NO. 01-_____
BASED RATE MAKING MECHANISM)	

PETITION FOR APPROVAL OF TARIFF ESTABLISHING A
PERFORMANCE-BASED RATE MAKING MECHANISM

Pursuant to TRA Rule 1220-4-1-.06 and Rule 1220-1-1-.05, Chattanooga Gas Company, a Tennessee corporation, ("Chattanooga Gas") respectfully requests that the Tennessee Regulatory Authority ("TRA" or "Authority") to approve its tariff containing a performance-based rate making mechanism ("PBRM") which is attached hereto as Exhibit

1. In support of this request, Chattanooga Gas submits the following information:

1. Full name and address of the principal place of business of the

Petitioner is:

Chattanooga Gas Company
6125 Preservation Drive
Chattanooga, Tennessee 37416

2. All correspondence and communications with respect to this Petition should be sent to the following:

Earl Burton, Manager
Marketing/Rates
Chattanooga Gas Company
6125 Preservation Drive
Chattanooga, Tennessee 37416
Telephone: (423) 490-4232
Facsimile: (423) 490-4333

Archie Hickerson, Manager-Rates
AGL Resources
Location 1686
P. Box 4569
Atlanta, GA 30302-4569
Telephone: (404) 584-3855
Facsimile: (404) 584-3489

D. Billye Sanders
Waller Lansden Dortch & Davis
A Professional Limited Liability Company
511 Union Street, Suite 2100
Nashville, Tennessee 37219
Telephone: (615) 244-6380
Facsimile: (615) 244-6804

3. Chattanooga Gas is incorporated under the laws of the state of Tennessee and is engaged in the business of transporting, distributing and selling natural gas in Hamilton and Bradley Counties within the state of Tennessee and surrounding environs. Chattanooga Gas is a public utility pursuant to the laws of the state of Tennessee and its public utility operations are subject to the jurisdiction of this Authority.

4. The PBRM will be a substitute for the prudence review of Chattanooga Gas' purchasing activities pursuant to TRA Rule 1220-4-7-.05 (Audit of Prudence of Gas Purchases).

5. Chattanooga Gas proposes to file an annual report not later than sixty (60) days following the end of each plan year identifying the actual cost of gas purchased and the applicable index for each month of the plan year. Such annual filings would be deemed in compliance with the provisions of the tariff unless the Authority were to provide written notification to Chattanooga Gas within 180 days of the filing of such reports.

6. The PBRM is designed to encourage Chattanooga Gas to maximize its gas purchasing activities at minimum cost consistent with efficient operations and service

reliability. The PBRM establishes predefined monthly commodity gas cost benchmark indices (the "Benchmark Indices") to which Chattanooga Gas' commodity cost of gas is compared. The Benchmark Indices are set forth in Exhibit 1 and are based upon an *Inside FERC* gas market report and a *Gas Daily* price index. Benchmark gas costs will be computed by multiplying total actual purchase quantities for the month by the applicable Benchmark Index. If Chattanooga Gas' actual total commodity gas cost does not exceed the Benchmark Index by two percentage points (2%) during any month of the plan year, Chattanooga Gas's gas cost will be deemed prudent and the audit required by TRA Rule 1220-4-7-.05 would be waived.¹ If, during any month of the plan year, Chattanooga Gas' actual gas costs exceeds the benchmark cost by two or more percentage points, Chattanooga Gas' gas costs will be audited in accordance with TRA Rule 1220-4-7-.05. Under the PBRM, any gas savings that result from purchases of gas below the Benchmark Index will be passed on to Chattanooga Gas customers. The PBRM would continue until it is either (a) terminated at the end of a plan year or by not less than ninety (90) days notice by Chattanooga Gas to the Authority or (b) modified, amended or terminated by the Authority.

7. The establishment of the PBRM as proposed would facilitate the efficient purchase of gas and eliminate the costs associated with annual audits of gas purchases. Chattanooga Gas' gas purchases have been found to be prudent in each of the audits since Rule 1220-4-7-.05 became effective in March of 1994. Enclosed as collective Exhibit 2 are charts comparing Chattanooga Gas' actual gas costs for a two-year period (July 1998 through June 2000 with the Benchmark Index that is proposed. The charts shows that during the two-year period, Chattanooga Gas' actual gas costs have been at or

¹ The TRA has authority to waive its own rules pursuant to TRA Rule 1220-1-1-.05.

below the index. Chattanooga Gas proposes that the plan would begin on August 9, 2001, subject to TRA approval of the tariff.

WHEREFORE, Petitioner prays:

1. That the Authority approve the Petition attached hereto.
2. That Petitioners be granted such other and/or further relief as may be warranted.

Respectfully submitted,

Chattanooga Gas Company

By: D. Billye Sanders

D. Billye Sanders, Esq.

Waller Lansden Dortch & Davis

A Professional Limited Liability Company

Nashville City Center

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Nashville, TN 37219-8966

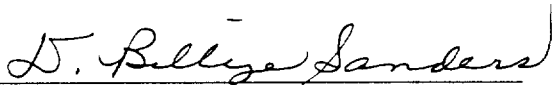
(615) 244-6380

Attorney for Chattanooga Gas Company

CERTIFICATE OF SERVICE

I hereby certify that on this 13th day of July, 2001, a true and correct copy of the foregoing Petition was served on the persons below by placing same in the U.S. mail, postage pre-paid:

Consumer Advocate Division
Office of Attorney General
Cordell Hull Building
426 5th Avenue North
Nashville, Tennessee 37243-0500


D. Billye Sanders
D. Billye Sanders

Performance-Based Ratemaking

Applicability

This Performance-Based Ratemaking Mechanism (PBRM) is designed to encourage the utility to maximize its gas purchasing activities at minimum cost consistent with efficient operations and service reliability. Each plan year will begin July 1. The annual provision and filings herein will apply to this annual period. The PBRM will continue until it is either (a) terminated at the end of a plan year or by not less than 90 days notice by the Company to the Authority or (b) modified, amended or terminated by the Authority.

Overview of Structure

The Performance-Based Ratemaking Mechanism establishes predefined monthly benchmark indexes to which the Company's commodity cost is compared.

Benchmark Index

Each month, Chattanooga will compare its actual commodity cost of gas to the appropriate benchmark amount. The benchmark gas cost will be computed by multiplying actual purchase quantities for the month, including quantities purchased for injection into storage, by the appropriate benchmark price index.

Spot Market Purchases:

The monthly spot market benchmark is the "Index" price published in the first issue of the delivery month of *Inside FERC's Gas Market Report* in the table titled "Price of Spot Gas Delivered to Pipelines," denoted in the column labeled "Index" and the row for the applicable "Pricing Point."

Swing Purchases

For swing purchases, the benchmark "Index" price for gas delivered on any day upon which *Gas Daily* is published, is equal to the Gas Daily-Midpoint price for the immediately following day under the heading "Daily Price Survey." For gas delivered on Saturday, Sunday, or any other day upon which *Gas Daily* is not published, the price index is equal to the Daily-Midpoint for the nearest subsequent day published by *Gas Daily*.

Long-term purchases

For long term purchases, i.e., a term more than one month, the "Index" price published in the first issue of the delivery month of *Inside FERC's Gas Market Report* in the table titled "Price of Spot Gas Delivered to Pipelines" denoted in the column labeled "Index" and the row for the applicable "Pricing Point" will be adjusted for the Company's rolling three-year average premium paid to ensure long-term supply availability during peak periods.

City Gate Purchases

For city gate purchases where gas is delivered by the supplier to the local distribution company, the indexes will be adjusted for the avoided transportation costs that would have been paid if the upstream capacity were purchased versus the demand charges actually paid to the supplier.

Performance-Based Ratemaking (Continued)

Prudence Determination

If Chattanooga's total commodity gas cost does not exceed the total benchmark amount by two percentage points (2%) during any month of a plan year ending after June 30, 2000, Chattanooga's gas cost will be deemed prudent and the audit required by Tennessee Regulatory Authority's Administrative Rule 1220-4-7-.05 is waived. If during any month of the plan year, the Company's commodity gas cost exceed the benchmark amount by two or more percentage points (2%), the Company's gas cost will be audited in accordance with Tennessee Regulatory Authority's Administrative Rule 1220-4-7-.05.

Filing with the Authority

The Company will file an annual report not later than 60 days following the end of each plan year identifying the actual cost of gas purchased and the applicable index for each month of the plan year.

Unless the Authority provides written notification to the Company within 180 days of such reports, the annual filing shall be deemed in compliance with the provisions of this Service Schedule.

Periodic Index Revisions

Because of changes in the natural gas marketplace, the price indices used by Chattanooga, and the composition of Chattanooga's purchased gas portfolio may change. The Company shall, within 30 days of identifying a change to a significant component of the mechanism, provide notice of such change to the Authority. Unless the Authority provides written notice to Chattanooga within 30 days of the Company's notice to the Authority, the price indices shall be deemed approved as proposed by the Company.

Chattanooga Gas Company
1999-2000 Cost of Gas
East Tennessee Gas Pipeline

Line	East Tennessee Gas Pipeline	Jul-99	Aug-99	Sep-99	Oct-99	Nov-99	Dec-99
	Spot Market Purchases						
1	Purchase Quantities	557,588	433,721	633,239	361,779	383,251	568,130
2	Purchase Price	2.2120	2.5440	2.8257	2.4600	2.9600	2.0697
3	Total Purchase Cost	\$1,233,399.17	\$1,103,386.22	\$1,789,369.86	\$889,976.34	\$1,134,422.96	\$1,175,886.59
	Swing Purchases						
4	Purchase Quantities	0	0	0	0	0	0
5	Purchase Price	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
6	Total Purchase Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	Long Term Purchases						
7	Purchase Quantities	0	0	0	0	0	0
8	Purchase Price	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
9	Total Purchase Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	City Gate Purchases						
10	Purchase Quantities	0	0	0	0	0	0
11	Purchase Price	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
12	Total Purchase Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	Benchmark Price Index						
13	Inside FERC Gas Market Report	\$2,210	\$2,540	\$2,830	\$2,470	\$2,970	\$2,070

Data Source: Closing Reports, Inside Gas Market Report Publications

Chattanooga Gas Company
1999-2000 Cost of Gas
East Tennessee Gas Pipeline

Line	East Tennessee Gas Pipeline	Jan-00	Feb-00	Mar-00	Apr-00	May-00	Jun-00
	Spot Market Purchases						
1	Purchase Quantities	750,176	724,330	688,785	671,040	741,305	690,808
2	Purchase Price	2.3011	2.5747	2.5581	2.8396	3.0297	4.3159
3	Total Purchase Cost	\$1,726,229.99	\$1,864,924.29	\$1,762,000.84	\$1,905,485.18	\$2,245,961.55	\$2,981,461.39
	Swing Purchases						
4	Purchase Quantities	0	0	0	0	0	0
5	Purchase Price	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
6	Total Purchase Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	Long Term Purchases						
7	Purchase Quantities	0	0	0	0	0	0
8	Purchase Price	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
9	Total Purchase Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	City Gate Purchases						
10	Purchase Quantities	0	0	0	0	0	0
11	Purchase Price	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
12	Total Purchase Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
13	Benchmark Price Index Inside FERC Gas Market Report	\$2.300	\$2.580	\$2.560	\$2.830	\$3.030	\$4.320

Data Source: Closing Reports, Inside Gas Market Report Publications

Chattanooga Gas Company
1999-2000 Cost of Gas
Southern Natural Gas

Line	Southern Natural Pipeline	Jul-99	Aug-99	Sep-99	Oct-99	Nov-99	Dec-99
	Spot Market Purchases						
1	Purchase Quantities	319,141	318,277	308,010	62,200	344,970	325,017
2	Purchase Price	\$2.2600	\$2.6000	\$2.8700	\$2.5119	\$3.0200	\$2.1448
3	Total Purchase Cost	\$721,259	\$827,520	\$883,989	\$156,240	\$1,041,809	\$697,112
	Swing Purchases						
4	Purchase Quantities	0	0	0	0	0	0
5	Purchase Price	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
6	Total Purchase Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	Long Term Purchases						
7	Purchase Quantities	0	0	0	0	0	0
8	Purchase Price	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
9	Total Purchase Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	City Gate Purchases						
10	Purchase Quantities	0	0	0	0	0	0
11	Purchase Price	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
12	Total Purchase Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	Benchmark Price Index						
13	Inside FERC Gas Market Report	\$2.26	\$2.60	\$2.87	\$2.52	\$3.02	\$2.140

Data Source: Closing, Inside Gas Market Report Publications

Line	Southern Natural Pipeline	Jan-00	Feb-00	Mar-00	Apr-00	May-00	Jun-00
	Spot Market Purchases						
1	Purchase Quantities	304,357	296,201	302,878	270,529	297,743	308,010
2	Purchase Price	\$2.3550	\$2.6250	\$2.6125	\$2.8825	\$3.0725	\$4.3725
3	Total Purchase Cost	\$716,761	\$777,528	\$791,269	\$779,800	\$914,815	\$1,346,774
	Swing Purchases						
4	Purchase Quantities	0	0	0	0	0	0
5	Purchase Price	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
6	Total Purchase Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	Long Term Purchases						
7	Purchase Quantities	0	0	0	0	0	0
8	Purchase Price	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
9	Total Purchase Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	City Gate Purchases						
10	Purchase Quantities	0	0	0	0	0	0
11	Purchase Price	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
12	Total Purchase Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	Benchmark Price Index						
13	Inside FERC Gas Market Report	\$2.350	\$2.620	\$2.610	\$2.880	\$3.070	\$4.37

Data Source: Closing, Inside Gas Market Report Publications

Line	East Tennessee Gas Pipeline	Jul-98	Aug-98	Sep-98	Oct-98	Nov-98	Dec-98
	Spot Market Purchases						
1	Purchase Quantities	667,396	667,394	630,181	457,524	628,457	649,481
2	Purchase Price	\$2.282	\$1.849	\$1.538	\$1.946	\$1.862	\$2.042
3	Total Purchase Cost	\$1,522,998	\$1,234,012	\$969,218	\$890,342	\$1,170,187	\$1,326,240
	Swing Purchases						
4	Purchase Quantities	0	0	0	0	0	0
5	Benchmark Price Index	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
6	Benchmark Gas Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	Long Term Purchases						
7	Purchase Quantities	0	0	0	0	0	0
8	Benchmark Price Index	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
9	Benchmark Gas Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	City Gate Purchases						
10	Purchase Quantities	0	0	0	0	0	0
11	Benchmark Price Index	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
12	Benchmark Gas Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	Benchmark Price Index						
13	Inside Gas Market Report	\$2.280	\$1.840	\$1.530	\$1.940	\$1.910	\$2.040

Data Source: Closing Reports, Inside Gas Market Report Publications

Line	East Tennessee Gas Pipeline	Jan-99	Feb-99	Mar-99	Apr-99	May-99	Jun-99
	Spot Market Purchases						
1	Purchase Quantities	649,481	586,628	649,481	583,126	660,543	638,845
2	Benchmark Price Index	\$1.702	\$1.743	\$1.577	\$1.825	\$2.298	2.1583
3	Benchmark Gas Cost	\$1,105,417	\$1,022,493	\$1,024,232	\$1,064,088	\$1,517,664	\$1,378,819
	Swing Purchases						
4	Purchase Quantities	0	0	0	0	0	0
5	Benchmark Price Index	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
6	Benchmark Gas Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	Long Term Purchases						
7	Purchase Quantities	0	0	0	0	0	0
8	Benchmark Price Index	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
9	Benchmark Gas Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	City Gate Purchases						
10	Purchase Quantities	0	0	0	0	0	0
11	Benchmark Price Index	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
12	Benchmark Gas Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	Benchmark Price Index						
13	Inside Gas Market Report	\$1.700	\$1.750	\$1.570	\$1.840	\$2.290	\$2.150

Data Source: Closing Reports, Inside Gas Market Report Publications

Chattanooga Gas Company
1998-1999 Cost of Gas
Southern Natural Gas

Line	Southern Natural Gas	Jul-98	Aug-98	Sep-98	Oct-98	Nov-98	Dec-98
	Spot Market Purchases						
1	Purchase Quantities	330,698	327,399	300,780	22,000	249,330	0
2	Benchmark Price Index	\$2.359	\$1.928	\$1.612	\$2.027	\$1.970	\$0.000
3	Benchmark Gas Cost	\$780,117	\$631,225	\$484,797	\$44,594	\$491,180	\$0
	Swing Purchases						
4	Purchase Quantities	0	0	0	0	0	0
5	Benchmark Price Index	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
6	Benchmark Gas Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	Long Term Purchases						
7	Purchase Quantities	0	0	0	0	0	0
8	Benchmark Price Index	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
9	Benchmark Gas Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	City Gate Purchases						
10	Purchase Quantities	0	0	0	0	0	0
11	Benchmark Price Index	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
12	Benchmark Gas Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	Benchmark Price Index						
13	Inside FERC Gas Market Report	\$2.350	\$1.910	\$1.600	\$2.020	\$1.960	\$2.090

Data Source: Closing Reports, Inside Gas Market Report Publications

Chattanooga Gas Company
1998-1999 Cost of Gas
Southern Natural Gas

Line	Southern Natural Gas	Jan-99	Feb-99	Mar-99	Apr-99	May-99	Jun-99
	Spot Market Purchases						
1	Purchase Quantities	316,655	127,276	338,954	251,482	318,277	308,010
2	Benchmark Price Index	\$1.760	\$1.78	\$1.627	\$1.870	\$2.362	\$2.222
3	Benchmark Gas Cost	\$557,313	\$226,836	\$551,478	\$470,271	\$751,770	\$684,398
	Swing Purchases						
4	Purchase Quantities	0	0	0	0	0	0
5	Benchmark Price Index	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
6	Benchmark Gas Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	Long Term Purchases						
7	Purchase Quantities	0	0	0	0	0	0
8	Benchmark Price Index	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
9	Benchmark Gas Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	City Gate Purchases						
10	Purchase Quantities	0	0	0	0	0	0
11	Benchmark Price Index	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
12	Benchmark Gas Cost	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000	\$0.000
	Benchmark Price Index						
13	Inside FERC Gas Market Report	\$1.760	\$1.780	\$1.620	\$1.870	\$2.350	\$2.210

Data Source: Closing Reports, Inside Gas Market Report Publications